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SUBJECT: HACIENDA'S (MEXICAN TREASURY) NEW BUDGET AND
FISCAL RESPONSIBILITY LAW

Sensitive but Unclassified, entire text.

11. (SBU) Introduction and Summary: The Fox administration continues to take protective measures to shield the Mexican economy from profligate spending. Hacienda's (Treasury) Budget and Fiscal Responsibility Law, which entered into force this April is an example of a cautionary move to ensure that a balanced budget is proposed each year. Econoff met with the director of the Hacienda Office of Relations with Investors who confirmed speculation that the passage of the law was a preventive action to counter overspending by the next administration. End summary.

Guarantees the Proposal of a Balanced Budget

12. (SBU) The main objective of this new law is to reduce the uncertainty created by the budget process each fiscal year and to provide enough time to both the Mexican Chamber of Deputies and the Senate to make a decision consistent with national priorities. The limits established under the new law intend to ensure that a balanced budget is proposed and maintained every year, preventing deficit spending by the new administration.

13. (SBU) Under the new law, only in exceptional cases could the administration propose a budget deficit; however, a clear justification, a through action plan and a deadline as to when such deficit would be cleared would have to accompany the proposal. Yet, even after the submission of all these assurances, nothing guarantees that either house would approve a deficit spending proposal. Furthermore, Congress would likely reject any spending proposal creating a deficit greater than 3 percent of GDP.

Schedule and Deadlines for the Executive and Legislative Branches

14. (SBU) The new law promotes the proposal of a balanced budget through an organized scheme in order to reduce time spent on arguments and negotiations between the Legislative and Executive branches. The President will submit the macroeconomic scenarios for the principal economic variables such as inflation rate, interest rates, economic growth, and the price of the Mexican oil basket, by April

1, as well as the proposed budget on September 8. After the proposed budget is sent to the Lower house, the Deputies will have until October 20 to approve the budget's earning section and sent it to the Senators who will have until October 31 to approve it. Congress must approve the budget's expenditure section by November 15, just as it is now; however, the Executive branch has a maximum of 20 days to sign the budget after Congressional approval.

15. (SBU) This year the law will extend the time limit to allow the President elect and his administration to participate in the budgetary process. The new administration will have until December 15 to submit its proposed budget, and both houses will have until December 31 to approve it. However, eighty percent of the next fiscal year's proposed budget expenditures for infrastructure and assistance projects have already been programmed. Hence, the new administration will only have a 20 percent budgetary margin.

Determining the Price of Mexican Crude Oil

16. (SBU) In order to establish the price of oil, the new law creates a mechanism that guarantees that estimates will be based on technical criteria rather than political considerations. The estimates will be based on the average price of Mexican crude oil for the last ten years and the forecasted market price for the next four years. This mechanism will preclude spending time on negotiations, as Congress will have to approve the set price by Hacienda for Mexican crude oil.

17. (SBU) Additionally, the law promotes the establishment
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of transparent rules for the distribution of excess oil revenues. Three new stabilization funds will be created: the stabilization of earnings for federal entities fund, the stabilization for infrastructure investment in PEMEX fund, and the continuation of the stabilization of oil-earnings fund. All of these funds will allow federal entities, PEMEX and the federal government to set aside resources as a safeguard for those years when oil-revenues are less than expected.

Comment

18. (SBU) The approval of this legislation is a favorable sign that lends greater credibility to the GOM budgetary process. Furthermore, establishing a mechanism that sets the price of Mexican crude oil based on historical market trends and forecasting is an important change, especially given the fact that the elected president will not have an absolute majority in Congress, thereby prolonging negotiations on key issues. Setting the crude oil budget price on non-political basis is an important advance. End comment.

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